

CITY OF PROTECTION, KANSAS

Financial Statements With Independent Auditors' Report

For the Year Ended December 31, 2011

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Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Protection, Kansas
Protection, Kansas

We have audited the accompanying financial statements of **City of Protection, Kansas**, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of **City of Protection, Kansas'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, **City of Protection, Kansas** has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas, whose practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **City of Protection, Kansas**, as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of **City of Protection, Kansas**, as of December 31, 2011, and their respective cash receipts and disbursements and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the financial statements of **City of Protection, Kansas** as a whole. The supplemental schedules of operating ratio and debt coverage ratio are presented for purposes of additional analysis and are not a required part of the financial statements. They have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Adams, Brown, Beran & Ball, Chtd.

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

September 11, 2012

CITY OF PROTECTION, KANSAS
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Fund Categories							
General Fund	\$ 91,509	-	285,478	279,718	97,269	11,654	108,923
Special Revenue Funds							
Special Highway Fund	10,212	-	13,570	16,876	6,906	-	6,906
Special Equipment Fund	84,319	-	47,450	39,958	91,811	-	91,811
Special Parks and Recreation Fund	-	-	876	-	876	-	876
Proprietary Fund Category							
Enterprise Funds							
Waterworks System Fund	112,928	-	122,876	67,545	168,259	4,295	172,554
Sewage Disposal Fund	224,600	-	102,766	88,451	238,915	651	239,566
Solid Waste Fund	27,451	-	62,264	59,056	30,659	-	30,659
Total Reporting Entity	<u>\$ 551,019</u>	<u>-</u>	<u>635,280</u>	<u>551,604</u>	<u>634,695</u>	<u>16,600</u>	<u>651,295</u>
Composition of Cash					Checking Account	\$	90,225
					Certificates of Deposit		560,695
					Petty Cash		375
					Total Reporting Entity	\$	<u>651,295</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Governmental Fund Categories					
General Fund	\$ 329,416	-	329,416	279,718	(49,698)
Special Revenue Funds					
Special Highway Fund	19,818	-	19,818	16,876	(2,942)
Proprietary Fund Category					
Enterprise Funds					
Waterworks System Fund	116,000	-	116,000	67,545	(48,455)
Sewage Disposal Fund	134,757	-	134,757	88,451	(46,306)
Solid Waste Fund	71,500	-	71,500	59,056	(12,444)

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Ad Valorem Property	\$ 125,107	128,086	135,450	(7,364)
Delinquent	6,327	5,782	-	5,782
Motor Vehicle	32,221	28,456	30,981	(2,525)
Recreational Vehicle	204	235	117	118
Local Sales Tax	49,778	55,223	55,000	223
Local Alcohol Tax	-	876	-	876
Licenses, Permits and Fees	945	1,891	1,000	891
Franchise Fees	35,358	38,636	36,000	2,636
Swimming Pool	3,674	3,590	3,000	590
Fines	298	3,251	1,500	1,751
Rent	125	175	-	175
Crop Sales	740	8,554	5,000	3,554
Miscellaneous	325	3,154	-	3,154
Interest	7,724	7,569	11,000	(3,431)
Total Cash Receipts	262,826	285,478	279,048	6,430
Expenditures				
General Administrative	67,041	63,645	76,946	(13,301)
Employee Benefits	27,472	21,116	35,000	(13,884)
Public Safety	37,970	52,590	49,456	3,134
Parks and Recreation	43,649	34,363	37,500	(3,137)
Street Department	62,050	69,768	100,000	(30,232)
Transfers Out	35,000	32,450	30,000	2,450
Neighborhood Revitalization Rebate	5,409	5,786	514	5,272
Total Expenditures	278,591	279,718	329,416	(49,698)
Cash Receipts Over (Under) Expenditures	(15,765)	5,760		
Unencumbered Cash - Beginning	103,873	91,509		
Prior Year Cancelled Encumbrances	3,401	-		
Unencumbered Cash - Ending	\$ 91,509	97,269		

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Special Highway Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Intergovernmental	\$ 14,404	13,570	14,760	(1,190)
Expenditures				
Commodities	11,800	16,876	19,818	(2,942)
Cash Receipts Over (Under) Expenditures	2,604	(3,306)		
Unencumbered Cash - Beginning	7,608	10,212		
Unencumbered Cash - Ending	\$ 10,212	6,906		

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Special Equipment Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Donations	\$ 18,067	-
Transfers In	50,000	47,450
Total Cash Receipts	68,067	47,450
Expenditures		
Capital Outlay	24,561	39,958
Cash Receipts Over (Under) Expenditures	43,506	7,492
Unencumbered Cash - Beginning	40,813	84,319
Unencumbered Cash - Ending	\$ 84,319	91,811

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Special Parks and Recreation Fund
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2011
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Alcohol Tax	\$ -	876
Expenditures	-	-
Receipts Over (Under) Expenditures	-	876
Unencumbered Cash - Beginning	-	-
Unencumbered Cash - Ending	\$ -	876

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Waterworks System Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Customer Sales	\$ 109,241	122,876	95,000	27,876
Expenditures				
Personal Services	18,690	20,890	30,000	(9,110)
Contractual Services	27,444	23,231	37,500	(14,269)
Commodities	10,146	21,893	18,500	3,393
Capital Outlay	35,481	1,531	30,000	(28,469)
Total Expenditures	91,761	67,545	116,000	(48,455)
Cash Receipts Over (Under) Expenditures	17,480	55,331		
Unencumbered Cash - Beginning	95,448	112,928		
Unencumbered Cash - Ending	\$ 112,928	168,259		

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Sewage Disposal Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over Under
		Actual	Budget	
Cash Receipts				
Taxes and Shared Revenues				
Local Sales Tax	\$ 24,889	27,612	25,000	2,612
Customer Sales	73,830	75,154	81,500	(6,346)
Total Cash Receipts	<u>98,719</u>	<u>102,766</u>	<u>106,500</u>	<u>(3,734)</u>
Expenditures				
Personal Services	10,447	10,577	14,500	(3,923)
Contractual Services	17,646	15,653	25,000	(9,347)
Commodities	2,990	1,964	10,000	(8,036)
KDHE - Principal Payments	28,713	29,459	29,459	-
KDHE - Interest Payments	14,941	14,267	14,267	-
KDHE - Service Fees	1,603	1,531	1,531	-
Capital Outlay	300	-	25,000	(25,000)
Transfers Out	15,000	15,000	15,000	-
Total Expenditures	<u>91,640</u>	<u>88,451</u>	<u>134,757</u>	<u>(46,306)</u>
Cash Receipts Over (Under) Expenditures	7,079	14,315		
Unencumbered Cash - Beginning	<u>217,521</u>	<u>224,600</u>		
Unencumbered Cash - Ending	\$ <u>224,600</u>	<u>238,915</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Solid Waste Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash Receipts				
Customer Sales	\$ 61,972	62,264	65,000	(2,736)
Expenditures				
Contractual Services	58,218	59,048	71,500	(12,452)
Commodities	167	8	-	8
Total Expenditures	58,385	59,056	71,500	(12,444)
Cash Receipts Over (Under) Expenditures	3,587	3,208		
Unencumbered Cash - Beginning	23,864	27,451		
Unencumbered Cash - Ending	\$ 27,451	30,659		

The notes to the financial statements are an integral part of this statement.

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Protection, Kansas has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

Reporting Entity

The City is a municipal corporation governed by an elected six member council. The financial statements of the City consist of all the funds of the City that are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City has no component units.

Use of Estimates

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the reported amount of unencumbered cash balances and accounts payable during the reporting period. Actual results could differ from these estimates.

Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the City for the year ended December 31, 2011.

Governmental Fund Categories

General Fund – to account for all financial resources except those required to be reported in another fund.

Special Revenue Funds – to account for the proceeds of specific revenue sources that are legally restricted to expenditure for a specified purpose.

Proprietary Fund Category

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles, and allowing the City to use the statutory basis of accounting.

Departure From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in the local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least 10 days after publication of the notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for the following special revenue fund: Special Equipment Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Deposits and Investments

The City follows the practice of pooling cash and investments of all funds. Each fund's portion of total cash and investments is summarized by fund category in the summary of cash receipts, expenditures, and unencumbered cash.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The City does not use "peak periods". All deposits were legally secured at December 31, 2011.

At December 31, 2011, the City's carrying amount of deposits was \$651,295 and the bank balance was \$661,642. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,228 was covered by federal depository insurance and \$411,414 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The City had no investments at December 31, 2011.

Compensated Absences

Vacation

The City's policy regarding vacation is that a full-time employee will accrue 8 to 14 hours per month (based on tenure with the City). Accrued vacation shall not exceed 120 to 240 hours (based on tenure with the City). No paid vacation may be taken during the first six months of employment. Part-time employees who work at least 20 hours per week shall earn vacation at the rate of 4 hours for each month of employment. Upon termination, an employee shall be compensated for all earned but unused vacation at their final rate of pay.

Sick Leave

The policy regarding sick leave is that a full-time employee is allowed to earn 1 day of sick leave a month and can accumulate up to 45 days of sick leave, which is cancelled upon the termination of the employee. A part-time employee who works at least 20 hours per week shall receive 4 hours of sick leave for each month of employment. Full-time employees have the option to sell back up to 12.5 days of sick leave when his or her accumulated sick leave reaches 45 days. For part-time employees it shall be when his or her accumulated sick leave reaches 22.5 days. The sick leave policy begins after one month of employment.

Longevity Pay

Annual longevity pay may be given at the discretion of the Governing Body.

A potential liability for accumulated vacation and sick leave is shown on the schedule of long-term debt.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The employee is responsible for the amount of deferred compensation to be contributed. The City is not responsible to make any contributions. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Calendar

Collection of current year property tax by the County Treasurer is not completed, apportioned nor distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing state statutes. Property taxes are collected and remitted to the County Treasurer. Taxes levied annually on November 1st are due one-half by December 20th and one-half by May 10th. Major tax distributions are made in the months of December through July. Lien dates for personal property are in March and August and lien dates for real property are in September. Taxes are recognized as revenue in the year received. Delinquent tax payments are recognized as revenue in the year received.

Restricted Assets

Restricted cash balances are reported in various funds that are legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt and for expenditures approved in federal and state grant contracts.

Reimbursements

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparison, the expenditures (or expenses) are properly offset by the reimbursements.

NOTE 2 – INTERFUND TRANSFERS

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis as authorized by Kansas statutes. **City of Protection, Kansas'** interfund transfers and statutory authority for the year ended December 31, 2011 were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General Fund	Special Equipment Fund	K.S.A. 12-1,117	\$ 32,450
Sewage Disposal Fund	Special Equipment Fund	K.S.A. 12-825d	15,000

NOTE 3 – LITIGATION

City of Protection, Kansas is party to various legal proceedings that normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

NOTE 4 – RISK MANAGEMENT

City of Protection, Kansas carries commercial insurance for risks of loss, including property, general liability, inland marine, workers' compensation, automobile, linebacker, law enforcement and surety bond coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 5 – GRANTS AND SHARED REVENUES

City of Protection, Kansas participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, any liability for reimbursement, which may arise as the result of the audit, is not believed to be material.

NOTE 6 – COMPARATIVE DATA

Comparative data for the prior year has been presented in Statement 3 in the accompanying financial statements in order to provide an understanding of changes in **City of Protection, Kansas'** cash and unencumbered cash balances. However, complete comparative data (presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

NOTE 7 – OPERATING LEASE

City of Protection, Kansas currently has an operating lease for a postage machine. The monthly rental payment is \$25. As of December 31, 2011 the rental payments totaled \$300. No future minimum lease payments are in contract as of year-end.

NOTE 8 – LONG-TERM DEBT

City of Protection, Kansas has the following type of long-term debt.

KDHE Revolving Loan

The City entered into a \$711,030 revolving loan agreement on October 11, 2005 with the Kansas Department of Health and Environment acting on behalf of the State of Kansas to finance the costs associated with the design and construction of sewer improvements that were necessary to stay within the state requirements.

CITY OF PROTECTION, KANSAS
Notes to Financial Statements
December 31, 2011

NOTE 8 - LONG-TERM DEBT (continued)

Changes in long-term liabilities for the City for the year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
KDHE Revolving Loan	2.58%	10/11/2005	\$ 711,030	2027	\$ 619,656	-	(29,459)		590,197	14,267
Compensated Absences					13,214			(7,764)	5,450	
Total Long-Term Debt					\$ 632,870	-	(29,459)	(7,764)	595,647	14,267

Current maturities of long-term debt and interest for the next five years and in the five year increments through maturity are as follows:

	YEAR								Total
	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027	
Principal									
KDHE Revolving Loan	\$ 30,224	31,009	31,814	32,640	33,487	180,941	205,685	44,397	590,197
Interest									
KDHE Revolving Loan	13,577	12,868	12,141	11,395	10,629	40,951	18,605	777	120,943
Total Principal and Interest	\$ 43,801	43,877	43,955	44,035	44,116	221,892	224,290	45,174	711,140

CITY OF PROTECTION, KANSAS

Supplementary Information

CITY OF PROTECTION, KANSAS
Schedule of Operating Ratio
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	<u>Operating Ratio</u>					
	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>2011</u>	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>2010</u>
Sewage Disposal Fund	\$ 102,766	\$ 88,451	1.16	\$ 98,719	\$ 91,640	1.08
Solid Waste Fund	62,264	59,056	1.05	61,972	58,385	1.06
Waterworks System Fund	122,876	67,545	1.82	109,241	91,761	1.19

See accountants' report.

CITY OF PROTECTION, KANSAS
Schedule of Debt Coverage Ratio
For the Year Ended December 31, 2011
(With Comparative Actual Totals for the Prior Year Ended December 31, 2010)

	<u>Debt Coverage Ratio</u>	
	<u>2011</u>	<u>2010</u>
Sewage Disposal Fund		
Total Revenues	\$ 102,766	98,719
Non-Debt Operating Expenses	<u>43,194</u>	<u>46,383</u>
Net Operating Revenue	<u>\$ 59,572</u>	<u>52,336</u>
Debt Service Expenses	<u>\$ 45,257</u>	<u>45,257</u>
Debt Coverage Ratio	<u>1.32</u>	<u>1.16</u>

See accountants' report.